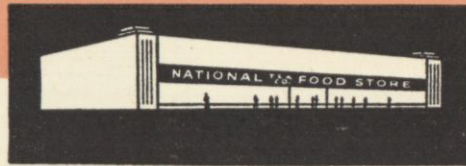


National Tea Co.



ANNUAL REPORT 1941



NATIONAL TEA CO.

★ MAIN OFFICE & WAREHOUSE

○ BRANCH OFFICES & WAREHOUSES

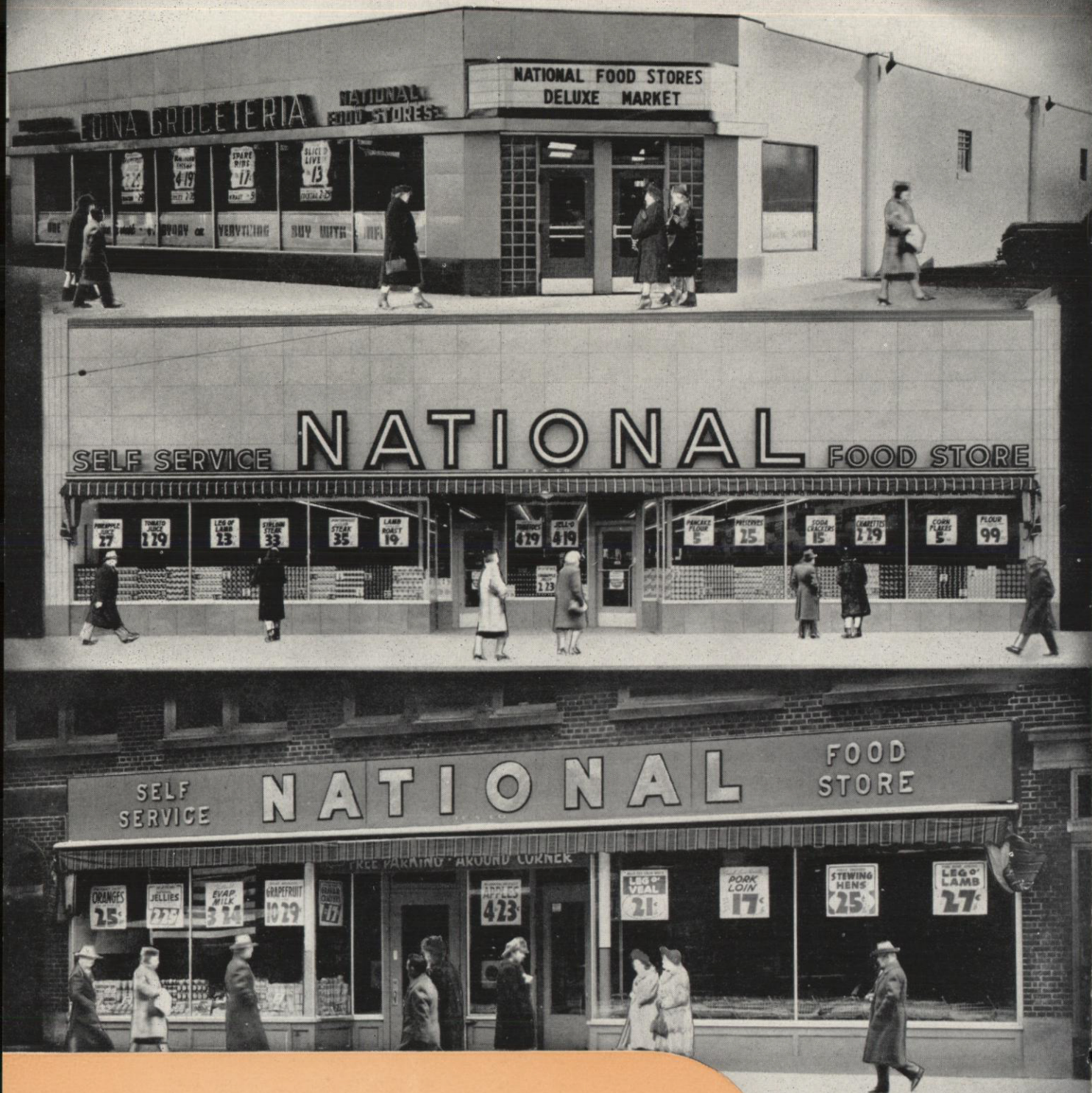
● CITIES IN WHICH STORES ARE OPERATED

Annual Report

TO THE STOCKHOLDERS FOR YEAR
ENDING DECEMBER 31, 1941



N A T I O N A L T E A C O .



New National Food Stores

These new stores are typical of the biggest and best that have been opened during the year. Emphasis on wide aisles, easy-to-reach shelves and clear, full illumination are winning increased public approval. As long as building supplies and new store equipment are available, more of these stores will be added.

Annual Report

T O T H E S T O C K H O L D E R S

TO OUR STOCKHOLDERS:

The improvement in general business conditions together with the efforts of our own staff have made 1941 a better year for us. Probably some hoarding of certain food items on the part of consumers is also responsible. Our net profit after federal taxes was \$425,152 compared with \$346,390 the year before, however, because our federal income taxes in 1940 were nominal, a better comparison perhaps is to say that before taxes the figures are \$595,152 and \$353,390, respectively.

Our sales were \$72,181,689 or 16.57% over the corresponding year, divided as follows:

	1940	1941	% of Increase
First quarter (12 weeks).....	\$14,410,868	\$14,803,225	2.72
Second quarter (12 weeks).....	13,894,579	15,731,494	13.22
Third quarter (16 weeks).....	18,195,640	22,061,876	21.25
Fourth quarter (12 weeks).....	15,418,356	19,585,094	27.02

Retail prices have not advanced in proportion to our wholesale costs. This is due to the natural lag between wholesale and retail prices in a rising market and is confirmed by various indexes which are available to the public.

We again report a reduced number of stores. During the year we opened 36 new locations, and closed 83, leaving a total of 1,015 stores operated on January 1, 1942. We are represented in ten more towns than we were a year ago, but have not gone into any additional states.

Our decreased number of stores and our additional dollar volume enabled us to show an average weekly sales record per store as follows:

	1938	1939	1940	1941
First quarter (12 weeks).....	\$941	\$ 944	\$1,122	\$1,166
Second quarter (12 weeks).....	934	952	1,093	1,250
Third quarter (16 weeks).....	890	989	1,074	1,327
Fourth quarter (12 weeks).....	976	1,129	1,210	1,608

Increasing inventories, due both to higher prices and increased volume, required loans from the banks which reached \$1,400,000 on November 14, 1941. These were reduced to \$800,000 by December 31 and as of this date are further reduced to \$400,000.

During the year we paid two years' accumulated preferred dividends amounting to \$157,418, leaving still due as at December 31, 1941, \$91,827. We shall try to pay all arrearages this year and place the preferred dividend on a regular quarterly schedule.

It is our hope, as improvement continues, that we will be able to increase our working capital through earnings and expand our stores avoiding any expensive and dangerous financing.

The real estate market has been somewhat better during the year and we were able to dispose of eight pieces of real estate, amounting to \$253,706 or almost as much as we had sold in the preceding three years. These sales produced a profit of \$47,110 which is included in our total net profit. No additions to the real estate account have been made other than minor changes in property already owned. The valuation at which all our real estate is carried is cost less depreciation, and also, less a write-down in 1935 of \$1,064,390.

Work of improving our physical condition has continued. We spent \$571,279 for repairs as well as \$714,062 on new equipment.

Commitments for merchandise beyond our current needs are comparatively unimportant, not being in excess of \$650,000.

Following the practice of previous years, inventories of merchandise and supplies in warehouses are valued at the lower of cost or current replacement market prices on the "first in first out" principle and Cost of Sales has been so charged. The inventories of groceries in the retail stores were computed by reducing the aggregate selling values by the estimated mark-up as determined by detailed valuation of the inventories of a representative number of stores at the lower of cost or replacement market.

We have transferred Mr. Robert V. Rasmussen, Vice-President, to Chicago. He has made an excellent record in Minneapolis and is now in charge of all merchandising operations of our Chicago branch where 70% of our stores are located.

Guy A. Richardson whom we have nominated as director, was for many years the chief executive of the Surface Lines of Chicago. We consider ourselves fortunate that a man of his outstanding ability and breadth of judgment is to be associated with us.

We deeply appreciate the faithful efforts of all our employees, the cooperation of our stockholders and customers, and hopefully look forward to 1942 being a still greater year for your Company.

By order of the Board of Directors,

A handwritten signature in dark ink, reading "John W. Kinley". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent. The signature is positioned above the word "PRESIDENT".

PRESIDENT

March 4, 1942

ASSETS

CURRENT ASSETS:	Dec. 31, 1941	Dec. 31, 1940
Cash	\$ 1,975,042.07	\$ 1,636,058.17
Accounts receivable—		
Trade	\$ 426,162.51	\$ 299,059.07
Due from relief agencies.....	135,073.65	181,483.08
Other	24,802.96	30,892.17
	\$ 586,039.12	\$ 511,434.32
Less: Reserve	58,143.76	67,685.68
	\$ 527,895.36	\$ 443,748.64
Inventories, at lower of cost or market—		
Merchandise	\$ 5,514,769.42	\$ 4,228,641.27
Supplies	172,232.25	142,880.03
	\$ 5,687,001.67	\$ 4,371,521.30
Total current assets	\$ 8,189,939.10	\$ 6,451,328.11
OTHER ASSETS:		
Notes receivable (less reserve of \$2,086.28 at December 31, 1941).....	\$ 11,055.48	\$ 2,227.47
Mortgages receivable	24,099.85	29,673.84
Investments	2,346.50	386.50
	\$ 37,501.83	\$ 32,287.81
FIXED ASSETS—AT COST, EXCEPT BUILDINGS:		
(The net value of buildings was written down against earned surplus in 1935. This write-down as to buildings owned at December 31, 1941 amounts to \$1,064,390.88)		
Land	\$ 3,153,255.58	\$ 3,287,847.66
Leaseholds and improvements being amortized.....	\$ 108,921.91	\$ 114,307.41
Buildings	\$ 4,766,319.25	\$ 4,845,589.01
Less: Reserve for depreciation	1,962,473.40	1,884,161.23
	\$ 2,803,845.85	\$ 2,961,427.78
Store fixtures and equipment.....	\$ 5,783,629.99	\$ 5,563,739.63
Less: Reserve for depreciation.....	4,438,556.29	4,359,987.30
	\$ 1,345,073.70	\$ 1,203,752.33
Machinery, fixtures and equipment.....	\$ 1,682,236.79	\$ 1,725,581.67
Less: Reserve for depreciation.....	1,474,959.95	1,494,286.09
	\$ 207,276.84	\$ 231,295.58
Delivery equipment	\$ 664,592.14	\$ 659,136.77
Less: Reserve for depreciation.....	409,787.56	468,292.28
	\$ 254,804.58	\$ 190,844.49
Total fixed assets.....	\$ 7,873,178.46	\$ 7,989,475.25
GOOD WILL	\$ 1.00	\$ 1.00
DEFERRED CHARGES:		
Prepaid rents, taxes, insurance, etc.....	\$ 144,778.79	\$ 84,302.20
	\$16,245,399.18	\$14,557,394.37

Balance Sheet

41 AND 1940

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Dec. 31, 1941

Dec. 31, 1940

Notes payable—

Banks	\$ 800,000.00	None
Real estate mortgages.....	31,428.12	50,786.32
	<u>\$ 831,428.12</u>	<u>\$ 50,786.32</u>

Accounts payable—

Trade	\$ 2,028,364.08	\$ 1,547,575.23
Commercial letters of credit secured by merchandise.....	53,753.55	91,935.92

Accrued expenses:

Pay rolls and commissions.....	255,712.51	188,568.95
Taxes	743,965.34	702,901.49
Interest	4,928.26	6,626.45
Employees' deposits	3,925.63	3,973.14

\$ 3,090,649.37 \$ 2,541,581.18

Total current liabilities..... \$ 3,922,077.49 \$ 2,592,367.50

REAL ESTATE MORTGAGES:

Due serially within six years.....	\$ 335,199.17	\$ 156,512.32
Due after six years.....	90,194.42	285,989.37
	<u>\$ 425,393.59</u>	<u>\$ 442,501.69</u>

ACCOUNT PAYABLE (Re store lease cancelled):

Payable \$3,000 per annum.....	\$ 17,000.00	\$ 20,000.00
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RESERVE FOR SELF INSURANCE..... \$ 121,087.41 \$ 106,708.70

CAPITAL STOCK:

Preferred, 5½% cumulative, par value \$10, redeemable at par on call or liquidation—

	Shares		
Authorized and issued.....	200,000	\$ 2,000,000.00	\$ 2,000,000.00
Less: Held in treasury.....	56,893	568,930.00	568,930.00
Outstanding	<u>143,107</u>	<u>\$ 1,431,070.00</u>	<u>\$ 1,431,070.00</u>

Common, no par value—

Authorized	800,000		
Issued	660,000	\$ 8,250,000.00	\$ 8,250,000.00
Less: Held in treasury.....	37,350	466,875.00	466,875.00
Outstanding	<u>622,650</u>	<u>\$ 7,783,125.00</u>	<u>\$ 7,783,125.00</u>

SURPLUS, per statement attached:

Paid-in	\$ 69,398.05	\$ 69,398.05
---------------	--------------	--------------

Earned

Restricted by reason of purchase of treasury stock.....	966,406.95	966,406.95
Unrestricted	1,509,840.69	1,145,816.48
	<u>\$ 2,545,645.69</u>	<u>\$ 2,181,621.48</u>

Dividends on preferred stock are in arrears from November 1, 1940 in the amount of 64¢ per share and \$91,827 in total to December 31, 1941

\$16,245,399.18 \$14,557,394.37

Consolidated Statement of Income and Surplus

FOR THE YEARS ENDED DECEMBER 31, 1941 AND DECEMBER 31, 1940

	Year ended December 31	
	1941	1940
Sales	\$72,181,689.11	\$61,919,443.02
<i>Deduct:</i>		
Cost of sales and expenses (Note 1)	\$71,022,342.96	\$60,930,009.37
Depreciation	582,103.48	627,823.13
	<u>\$71,604,446.44</u>	<u>\$61,557,832.50</u>
Net operating profit	\$ 577,242.67	\$ 361,610.52
<i>Add:</i>		
Depreciation—prior years adjustments	\$ None	\$ 16,110.74
Dividends received from investments	28.75	28.75
Profit on disposal of fixed assets	59,988.08	2,309.67
	<u>\$ 60,016.83</u>	<u>\$ 18,449.16</u>
	\$ 637,259.50	\$ 380,059.68
<i>Deduct: Interest</i>	42,107.15	26,669.06
Net profit before provision for federal income taxes	\$ 595,152.35	\$ 353,390.62
Provision for federal income taxes (Note 2)	170,000.00	7,000.00
Net profit transferred to surplus	\$ 425,152.35	\$ 346,390.62
Earned surplus at beginning of year	2,112,223.43	1,844,541.66
Reduction of accrued taxes—prior years (Note 3)	96,289.56	None
	<u>\$ 2,633,665.34</u>	<u>\$ 2,190,932.28</u>
<i>Deduct: Preferred dividends</i>	157,417.70	78,708.85
Earned surplus	\$ 2,476,247.64	\$ 2,112,223.43
Paid-in surplus, being excess of par or stated value of treasury stock over cost	69,398.05	69,398.05
Surplus as per balance sheet	<u>\$ 2,545,645.69</u>	<u>\$ 2,181,621.48</u>

Note 1: Includes rent received for space not used by the company in store properties owned or leased amounting to \$218,721.38 in 1941 and \$206,070.92 in 1940 before deducting depreciation, taxes, rent paid and other expense applicable to this space.

Note 2: No provision is required for federal excess profits tax. The return for this tax for 1941 will be filed on invested capital basis.

Note 3: The volume tax levied by the State of Minnesota on chain stores for the years 1933 to 1936 has been held unconstitutional by United States Supreme Court. The provision for such tax accrued but unpaid, \$96,289.56, was returned to surplus this year. The company has obtained judgment for refund of (\$70,512.18 plus interest) taxes paid under this law which will be taken into account when received.

Auditor's Certificate

TO THE STOCKHOLDERS,
NATIONAL TEA CO.
CHICAGO, ILLINOIS

We have examined the consolidated balance sheet of National Tea Co. (Illinois Corporation) and subsidiaries as of December 31, 1941 and the consolidated statement of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion the accompanying consolidated balance sheet and related consolidated statement of income and surplus present fairly the consolidated position of the Companies at December 31, 1941, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We had previously made an examination of the accompanying consolidated balance sheet as at December 31, 1940 and the consolidated statement of income and surplus for the year ended that date, which are presented for the purpose of comparison.

ARTHUR YOUNG & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Chicago, Illinois
February 16, 1942

Officers and Directors of National Tea Co.

JOHN McKINLAY, *Director • President*

BURT J. DICKENS
Director • Vice President

GEORGE RASMUSSEN, JR.
Director • Assistant Secretary

ROBERT V. RASMUSSEN
Director • Vice President

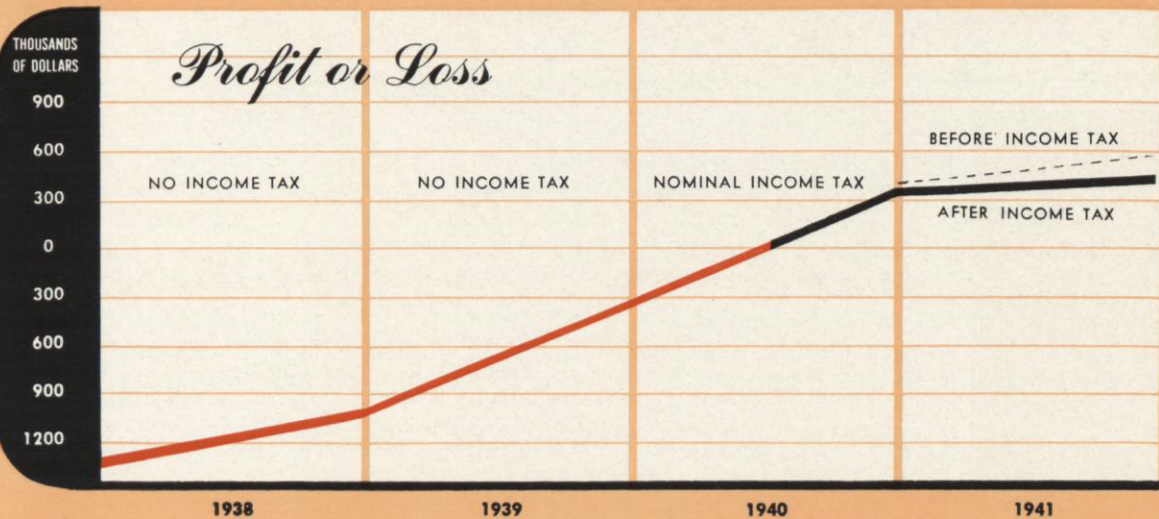
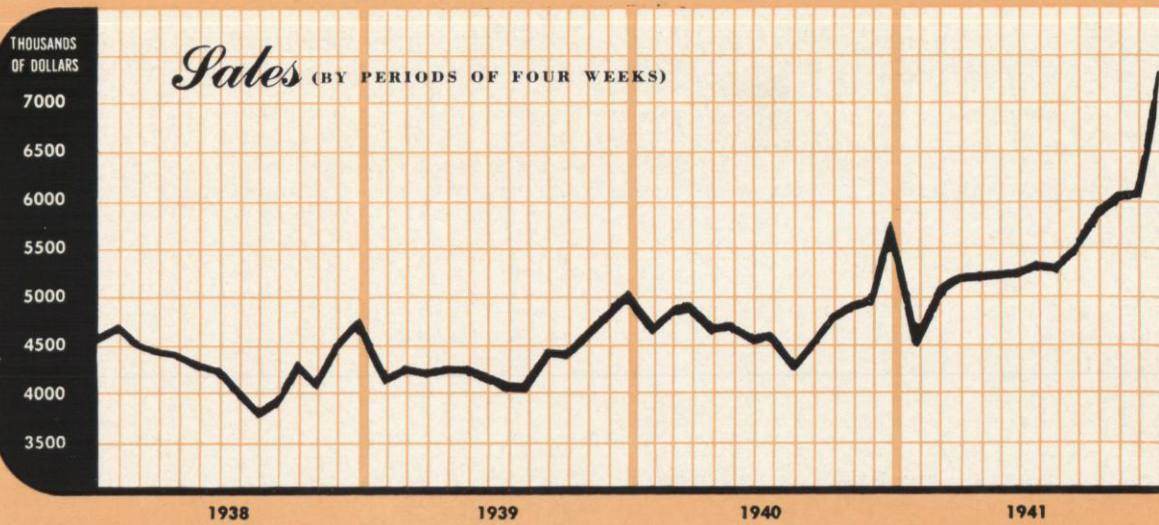
CLARENCE E. BEARD
Assistant Treasurer

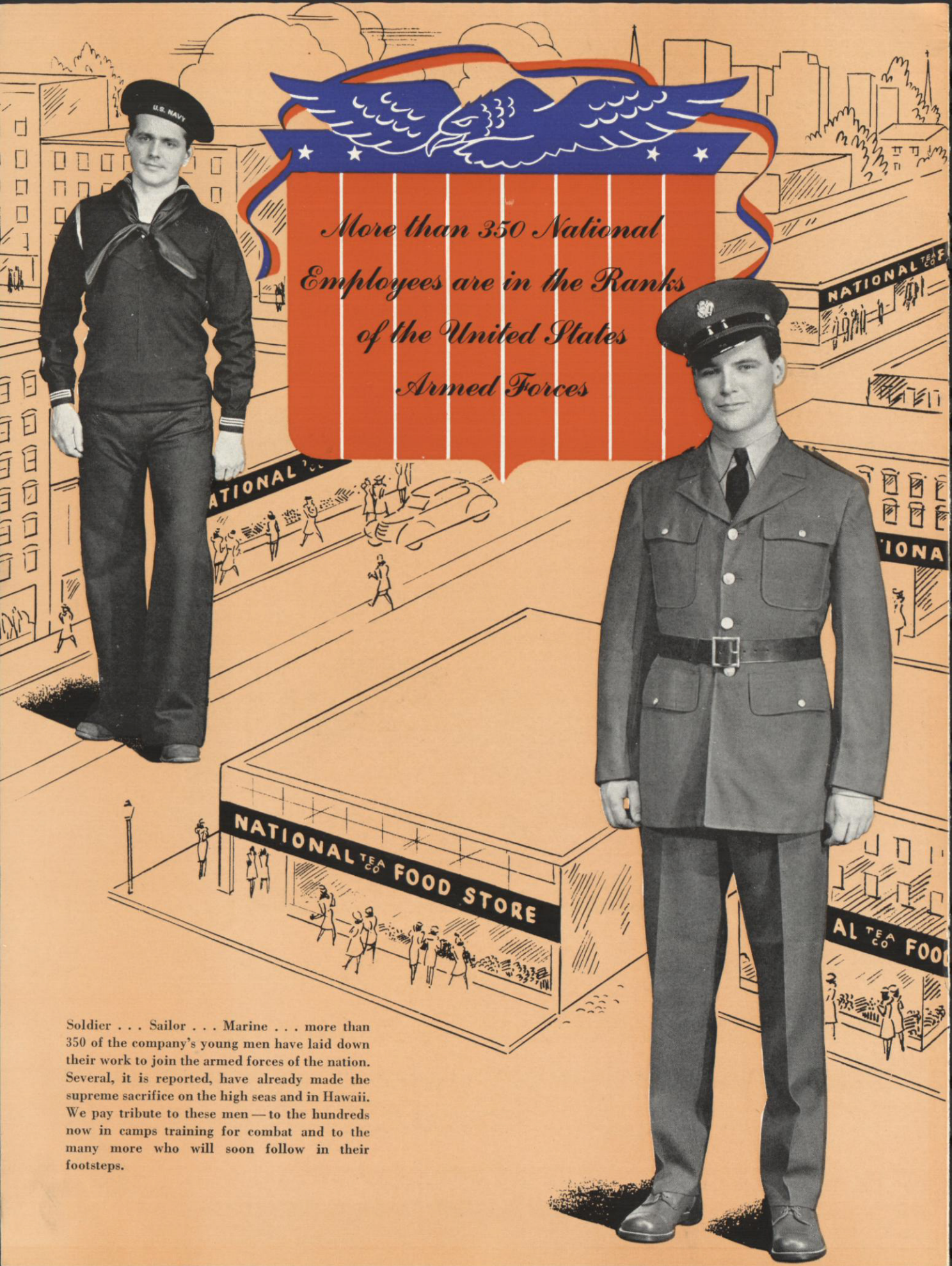
WILLIAM E. RUSSELL
Director • Secretary

JUDSON F. STONE
Director

TH. RASMUSSEN
Treasurer

GUY A. RICHARDSON
Director





*More than 350 National
Employees are in the Ranks
of the United States
Armed Forces*

Soldier . . . Sailor . . . Marine . . . more than 350 of the company's young men have laid down their work to join the armed forces of the nation. Several, it is reported, have already made the supreme sacrifice on the high seas and in Hawaii. We pay tribute to these men—to the hundreds now in camps training for combat and to the many more who will soon follow in their footsteps.

Proudly we Hail The 1941 THANKSGIVING FEAST...

The Finest Turkeys Anywhere at Any Price!

Elmwood Farm BRAND — FRESH DRESSED, EXTRA FANCY QUALITY NORTHWESTERN
TURKEYS 29¢ lb.



NO MATTER WHAT YOU PAY, YOU CAN'T BUY A BETTER TURKEY! Elmwood Farm Brand Turkeys come from the northwestern mountain states, the best turkey raising section in the world. They are small-boned, with broad, well-rounded, thickly meaty breasts. Every one is inspected and guaranteed to be rich, juicy and appetizing in flavor. Elmwood Farm Brand turkeys are sold only at your National market.

ELMWOOD FARM BRAND FRESH DRESSED
Young Hen Turkeys 33¢ lb.

A Nice Plump Chicken for Thanksgiving!
Roasting Chickens 25¢ lb.

FANCY NORTHWESTERN CORNED
Ducks 23¢ lb.
Shrimp 27¢ lb.
Young Geese 23¢ lb.
Pork Loin 25¢ lb.
Sausage 25¢ lb.
Oysters 33¢ doz.
Pickles 21¢ doz.
Hazel Assorted Cold Cuts 1-19¢ lb.

AMERICAN HOME GINGER ALE
 4-24 oz. 25¢
Golden Grain Bread
 20-oz. loaf 10¢

Apple Cider 25¢ gal.
Deluxe Krakers 19¢ doz.
Jumbo Twist 8¢ doz.
Kernel Corn 25¢ doz.
Sifted Peas 25¢ doz.
Tomatoes 25¢ doz.
Peaches 21¢ doz.
Crabmeat 29¢ lb.

For your Thanksgiving Feast
Cranberries 29¢ lb.

Potatoes 10¢ 25¢

Potatoes 3¢ 10¢

Head Lettuce 5¢

Celery 3¢ 13¢

Grapefruit 3¢ 10¢

Oranges 19¢ dozen

Grapes 2¢ 15¢

Sprouts 1¢ 17¢

Apples 4-23¢

Potatoes 10-29¢

Squash 2-5¢

Bosc Pears 2-19¢

Olives 25¢

Fruit Cake 75¢

Candy 20¢

Seasoning 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Olives 13¢

Cranberry Sauce 25¢
Dole Pineapple Juice 25¢
Libby's Tomato Juice 11¢
Loaf Cheese 33¢
Cheese 35¢
Our Breakfast 39¢
National DeLuxe Coffee 28¢

NONE SUCH 2¢ 19¢

MIXED CANDY 15¢

Pumpkin 15¢
Pumpkin 19¢
Mince Meat 9¢
Sun Maid Raisins 9¢
Citron Peel 12¢
Walnuts 27¢
Large Pecans 23¢
Glace Mixed Fruit 33¢

MIXED NUTS 27¢

FRUIT CAKE 75¢

Candies 10¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

Seasoning 13¢

★ ★ **NATIONAL TEA CO. FOOD STORES** ★ ★

*Our Thanksgiving Color
 Advertising has Patriotic Flavor*

Favorable response from the public as well as company personnel has marked the annual Thanksgiving color ad. Another color ad not reproduced here was run in a Milwaukee newspaper immediately before Christmas. To schedule this prestige-building type of advertising has become a National Tea Co. tradition.



NATIONAL TEA CO.

★ MAIN OFFICE & WAREHOUSE

○ BRANCH OFFICES & WAREHOUSES

● CITIES IN WHICH STORES ARE OPERATED

